



# Donovan CPAs

The Board of Directors  
Edison School of the Arts, Inc.

We have audited the financial statements of Edison School of the Arts, Inc. as of and for the years ended June 30, 2019 and 2018 and have issued our report thereon dated November 19, 2019. Professional standards require that we advise you of the following matters relating to our audit.

## **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated June 14, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Edison School of the Arts, Inc. solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

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[www.cpadonovan.com](http://www.cpadonovan.com)

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Edison School of the Arts, Inc. is included in Note 1 to the financial statements. Effective with the June 30, 2019 year end, Edison School of the Arts, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We consider the following to be a significant accounting estimate:

#### *Valuation of In-kind Services*

Edison School of the Arts, Inc. has recorded in-kind contributions and offsetting expenses from Indianapolis Public Schools, a related party, totaling \$3,169,188 and \$2,848,200 during the years ended June 30, 2019 and 2018, respectively. These in-kind transactions represent approximately 44% of total revenue and support for both years and 44% and 47% of total expenses for the years ended June 30, 2019 and 2018, respectively. The values of these in-kind services are calculated by Indianapolis Public Schools using significant estimates and judgments and are recorded by management of the School as presented.

### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no such uncorrected misstatements. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

See Exhibit A for corrected misstatements.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Edison School of the Arts, Inc.'s financial statements or the auditors' report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which were provided by management in a separate letter dated November 19, 2019.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with Edison School of the Arts, Inc., we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Edison School of the Arts, Inc.'s auditors.

### *Emphasis of Matter Paragraph*

Given the significance of the valuation of the in-kind contributions and expenses, both in terms of dollar amounts as well as the significance of the estimates and judgments involved in arriving at those amounts, we have included an emphasis of matter paragraph in our independent auditors' report drawing the reader's attention to the disclosures in Note 2. Our opinion is not modified with respect to this matter.

This report is intended solely for the information and use of the Board of Directors, management of Edison School of the Arts, Inc., and Indianapolis Public Schools, and is not intended to be and should not be used by anyone other than these specified parties.

DONOVAN  
Indianapolis, Indiana  
November 19, 2019



**Edison School of the Arts, Inc.**  
**Corrected Misstatements – Audit of the Fiscal Year Ended June 30, 2019**  
**Exhibit A**

<b>Adjusting Journal Entries JE # 101</b>			
PAJE <101> To capitalize purchases over \$1,000 per item.			
New Account	Textbooks	40,165.00	
New Account	iPads	64,680.00	
New Account	Musical Instruments	5,954.00	
8035	Supplies & Materials: Curriculum & Assessments		40,165.00
8038	Supplies & Materials: Hardware/Software		64,680.00
8052	Supplies & Materials: Musical Instruments		5,954.00
<b>Total</b>		<b><u>110,799.00</u></b>	<b><u>110,799.00</u></b>
<b>Adjusting Journal Entries JE # 102</b>			
PAJE <102> To correct depreciation expense and accumulated depreciation.			
New Account	Depreciation Expense	32,601.00	
New Account	Accumulated Depreciation		32,601.00
<b>Total</b>		<b><u>32,601.00</u></b>	<b><u>32,601.00</u></b>
<b>Adjusting Journal Entries JE # 103</b>			
PAJE <103> To record in-kind revenues and expenses per IPS memo.			
New Account	Building and Facility Usage	1,152,424.00	
New Account	Utilities and Building Maintenance	18,716.00	
New Account	Utilities and Building Maintenance	136,669.00	
New Account	Utilities and Building Maintenance	193,476.00	
New Account	Security	68,602.00	
New Account	SPED Personnel	251,457.00	
New Account	Transportation	874,964.00	
New Account	Food Service	472,880.00	
New Account	In-Kind contribution revenues		3,169,188.00
<b>Total</b>		<b><u>3,169,188.00</u></b>	<b><u>3,169,188.00</u></b>